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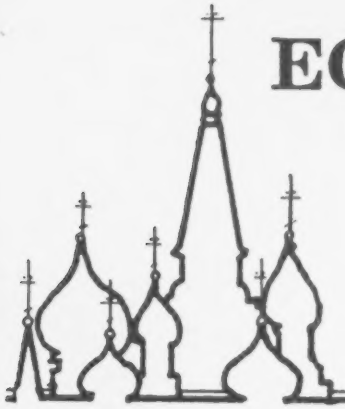

ECONOMIC NEWSLETTER

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It is cruel and unusual punishment to begin each newsletter with the statement that the economic situation in the Soviet Union has deteriorated. Nonetheless that continues to be the case. Because the Soviet statistical authorities are issuing fragmentary data about output each month, it is difficult to determine just how serious conditions are, but they have released significant hints. For example, in January Soviet authorities reported that petroleum output was down by 8 to 9%. We reported in the last newsletter that the expectation is that oil output for all of 1991 will fall by 30 to 40 million tons which represents an 8 to 9% drop. Naturally enough if production declines, exports should also be effected. Our preliminary reports also show that oil exports for 1990 were down 10 million tons from 1989. The expectation is that in 1991 they will be down 30 to 40 million tons and there have been some reports in the general press that should this trend continue, by 1995 it will be necessary for the Soviet Union to import petroleum.

The situation is likely to continue to deteriorate because the miners have gone out on strike again. As of this writing, the number of strikers is relatively small but the economic issues that they have been fighting for have now been expanded to include political demands as well. One of the most potentially disturbing demands is the call for Gorbachev's resignation. Under those circumstances it will be very difficult to reach some kind of agreement.

Perhaps the most sensational report about the depth of the Soviet Union's problems is the report that appeared in The Financial Times after a broadcast on the BBC. That Gosplan should suggest that the Soviet GNP in 1991 will be down by 11.6% is very dramatic. It is entirely possible that report which was presented to the International Monetary Fund was an exaggeration of the seriousness of the condition, but the fact remains that indeed there are signs which suggest that output will be down sharply. What is beginning to happen is that as one portion of the economy has problems, those difficulties spread like an epidemic to other parts of the economy. For example, one of the reasons oil output is down is because the workers are working to rule. One of the reasons they are working to rule is because they are not receiving their supplies of consumer goods. That is a result of several factors. Because prices in most state shops have not been increased, a vast quantity of consumer goods have been sucked out of state channels and into private and black market sales. In addition because of growing anger among the workers there have been an increasing number of mishaps affecting pipelines and railroad lines. This disrupts transportation which intensifies the energy shortage which in turn leads to more disruption. In other words the prospects are not very promising.

The Currency Auction

The currency auction figures show that the ruble continues to decline in value. Whereas the January auction price was 25 rubles to the dollar, it took 29.69 rubles to buy a dollar on February 13, 1991. That suggests that, at least at that stage, Prime Minister Valentin Pavlov's currency reform had no impact on the value of the ruble. If anything, it made it even less valuable.

Valiutnyi Auction

Date	Rubles to 1 US dollar
Feb. 13, 1991	29.69
Jan. 24, 1991	25.02
Jan. 8, 1991	22.85
Dec. 14, 1991	21.61
Nov. 30, 1991	20.94

Arden House

The Arden House program has been sent out to most of our readers. There have been some additions to the program. We will now be joined by Congressmen Thomas Downey and Stephen Solarz in addition to Congressman Steny Hoyer. A new program and enrollment form are enclosed.

FOREIGN EXCHANGE RATES
as of February 13, 1991
Quoted in rubles

	Official Rate	Special Rate
£100 Sterling	108.49	1084.90
100 Aust. Sch.	5.33	53.30
100 D. Marks	37.46	374.60
100 D. Guilders	33.23	332.30
100 U.S. Dollars	54.50	545.00
100 Fr. Francs	10.99	109.90
1,000 Jap. ¥	4.27	42.70
10,000 It. Lire	4.98	49.80
100 Swiss Frs.	43.87	438.70
100 Nor. Kroner	9.57	95.70
1,000 Bel. Frs.	18.20	182.00
100 Sw. Kronor	9.97	99.70

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THE BOSTON SUNDAY GLOBE • MARCH 10, 1991

The retreat of Mikhail Gorbachev

MARSHALL I. GOLDMAN

Two weeks ago, as he reflected on his 60th birthday, and today, as he marks his sixth year as general secretary of the Communist Party of the Soviet Union, Mikhail Gorbachev cannot help but wonder what went wrong.

The outside world did not know it at the time, but four months before he became general secretary, Gorbachev and his confidant and fellow Politburo member, Eduard Shevardnadze, had a long talk about the kind of Soviet Union both wanted. Provoked by Shevardnadze's insistence that the Soviet experiment "had all gone rotten," the two agreed "it was impossible to live that way." Their approach would be predicated on "a simple formula: more democracy, more glasnost, more humanity" and "perestroika."

The devil was in the doing. Without doubt the Soviet Union is a different place today than it was six years ago. But not necessarily better.

Moreover, even where conditions are better, they often are not as good as they were even 12 months ago. Thus, Gorbachev once again has gone back to emphasizing his role as general secretary of the Communist Party rather than his post as president of the country. Moreover, it is a different president than the Gorby we came to love and applaud as recently as May, when he last visited the United States – the one who brought us perestroika, glasnost and the end of the Cold War.

Gorbachev's economic policy has been a major disappointment, at least within the Soviet Union. Officially the Soviet national income dropped 4 percent last year, but if inflation, which reached almost 50 percent a year, is taken into account, the drop in national income is probably 8 percent or more. So far this year, oil output is down about 8 percent, and petroleum exports, the Soviet Union's main hard-currency earner, are down about 20 percent. More important for the Soviet consumer, shelves in state shops are empty. True, goods are available in the peasant and cooperative markets, but usually at prices that are two to three times higher. An ill-designed currency reform has hurt the elderly and peasants as much or more than it hurt black market dealers who, wary of such a move, had protected themselves by putting their wealth into dollars or property.

Without doubt the Soviet Union is a different place today than it was six years ago. But not necessarily better. Moreover, even where conditions are better, they often are not as good as they were even 12 months ago.

Now, confronted by a collapsing economy, Gorbachev seems unable to decide what to do next. In August, he seemed on the verge of supporting a massive overhaul of the economy, but then backed away. Similarly, after saying he was in favor, he now acknowledges opposition to the sale of private land to owners and has even expressed doubts about the wisdom of allowing private cooperatives.

Reflecting that hostility, Vladimir Kryuchkov, the director of the KGB, and Valentin Pavlov, the prime minister, have lashed out at foreigners and their Soviet joint ventures. To Kryuchkov, the KGB must be vigilant against foreign attempts to "inflict economic damage in our country" or "economic sabotage." They "deliver impure and sometimes infected grain as well as products with above average levels of radioactivity or harmful chemical additives." In the same vein, Pavlov warns that the sale of land will primarily benefit our "dirty millionaires," who, rather than hire what might well become unemployed collective farmers, will more likely "use the land for radioactive dumps."

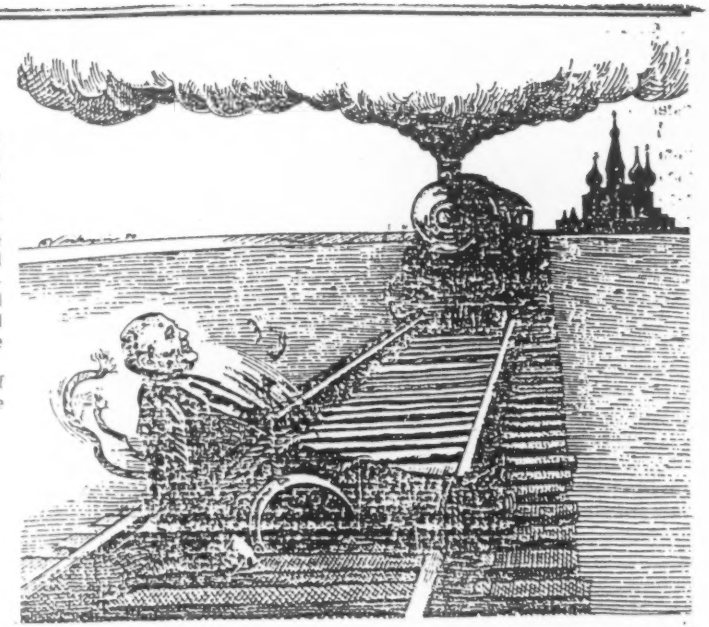
Both ministers are hot on the trail of Western wheeler-dealers, who they charge are seeking to corner the market for rubles, with which the foreigners will then buy up Soviet property and oil fields.

Politically there has also been a retreat. Some Soviet newspapers sound little different than they did in the Brezhnev era. Fortunately there are still some voices challenging Gorbachev and his retreat from his reforms. Those who hold out continue to attack Gorbachev's recent decisions, including his recent *ukaz*, which allows the KGB to inspect business transactions, as well as his decisions to send paratroops into Lithuania and the other dissident republics. These pro-reform voices continue to urge better relations with the West.

But the swing seems to be to the East and to many of the xenophobic Slavophile traditions. Increasingly strident voices inside the party and the army complain about the Soviet Union's surrender of East Germany, Eastern Europe. They are frightened by America's demonstration of technological powers in the Persian Gulf and are doing all they can to back off from some of the already-agreed-to Soviet commitments on conventional weapons, as well as on long-range strategic weapons.

How poignant it must be now for Gorbachev. He finds himself misunderstood and no longer appreciated. His friend Shevardnadze, the midwife of perestroika and glasnost, has resigned without notice. As he did so, he warned of the country's turn to dictatorship and the abandonment of their mutual dream, causes for which Gorbachev deservedly won the Nobel Prize.

Now Gorbachev faces a March 17 referendum on the future of the Soviet Union as a unified country. Given the decline and fall of his reform efforts, some also see it as a referendum on Gorbachev himself.



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